



State of West Virginia

A REPORT TO OUR CITIZENS

For the Fiscal Year Ended June 30, 2007

Quick Glance at State Government's Financial Stability








A Message from Governor Joe Manchin III

Maintaining a sound financial foundation for the state of West Virginia has been one of my goals since becoming governor in 2005.

Together, we have succeeded in many ways to achieve a more secure financial environment for the future. This brief report will provide you with information on how our taxpayers' dollars are being spent and the direction in which we plan to proceed in years to come.



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A General Profile of Our State Government

The state of West Virginia provides a full range of services including education, social and health services, transportation, public safety, conservation of natural resources, and economic development. In addition to these general government activities, the West Virginia state government includes other entities, which are financially accountable to the state. The criteria used to determine these entities are (1) the ability of the state to impose its will on that entity or (2) the potential for the

entity to provide specific financial benefits to or impose specific financial burdens on the state.

Budgetary control is maintained through legislative appropriations and the Executive Branch budget process. Agencies submit budgetary requests to the State Budget Office. The State Budget Office compiles the Executive Budget on behalf of the governor, who submits it to the Legislature.

After the approval of the budget, the State Budget Office and the state auditor control the spending patterns of the state. All appropriations, except funds which are reappropriated, expire 31 days after fiscal year-end.



Financial Highlights of Our Progress

For the fiscal year ended June 30, 2007, the financial highlights and accomplishments for West Virginia state government are briefly outlined. **Good news** for the state's governmental funds which reported an ending fund balance of \$3.48 billion, an increase of \$730 million in comparison with the prior year.

An improving economy with energy as the lead sector, including a rise in average coal prices and higher natural gas prices, contributed to positive tax revenue growth during the year. Cost controls were also a major factor.

Personal income tax collections increased by \$42 million and consumer sales tax collections by \$39 million. The increase in collections was largely due to a combination of economic growth, a strong energy sector, higher capital gain realizations, inflation and a change in withholding tax rules.

There was a net increase in West Virginia's long-term obligations of \$670 million, which includes new bonds, capital leases and notes. The Tobacco Settlement Finance Authority issued \$911 million in revenue bonds payable from the State's Tobacco Master Settlement Agreement revenue.

Some of the state's financial accomplishments made during this period included:

- 💰 More than \$1 billion was put toward reducing unfunded pensions and state debt
- 💰 More than \$2.5 billion was saved because of the extra commitments to unfunded liabilities in retirement
- 💰 A record state revenue collection and a \$106.7 million budget surplus for the third year in a row

💰 A drop in corporate net income tax to 8.75% from 9.00%

💰 A 17% growth in West Virginia exports, surpassing the 10% national average (the state's top international export markets [in order] were the European Union, Canada, Japan and China)

💰 State ranked 8th among all 50 states for business recruitment and attraction, according to a 2007 study by Expansion Management Magazine and the National Policy Research Council

💰 Record-low unemployment levels every month in 2007, with unemployment down 3,600 for the year

West Virginia continues to move forward in keeping our financial house in order, with a sound future ahead.

Demographic Information on West Virginia

Total Population:

1,808,000

Male: 876,170

(48.6%)

Female: 929,174

(51.4%)

Average Family Size: 2.9

School Enrollment (3 years and older; including higher education):

418,553

Individuals in Labor Force (16 years and older; excluding armed forces):

792,344

** U.S. Census Bureau, Census 2000*

West Virginia's Major Employers:

- State of West Virginia
- Wal-Mart Associates Inc.
- West Virginia University Hospitals/ United Hospitals
- Charleston Area Medical Center
- Kroger
- CSX/CSX Hotels Inc.
- American Electric Power
- Lowe's Home Centers, Inc.
- Consolidated Coal Company
- Verizon
- St. Mary's Hospital

** As of June 30, 2006*

State Contacts and Resources

The following are helpful resources on the financial stability of our state.

Department of Administration - Finance Division

Ross Taylor, State Comptroller
(304) 558-6181 / Ross.A.Taylor@wv.gov

Department of Revenue - State Budget Office

Mike McKown, Budget Director
(304) 558-0040 / Mike.P.McKown@wv.gov

Web Sites:

State Executive Budget

www.wvbudget.gov

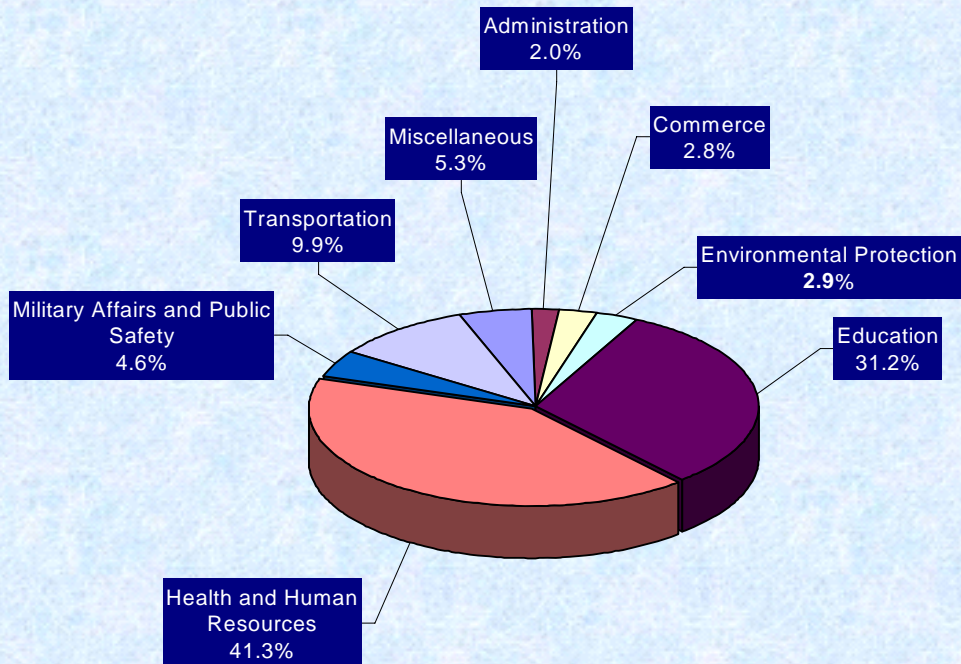
Comprehensive Annual Financial Report

www.wvfinance.state.wv.us/CAFRGAP.HTM



State Spending

2007 Functional Expenses - Governmental Activities

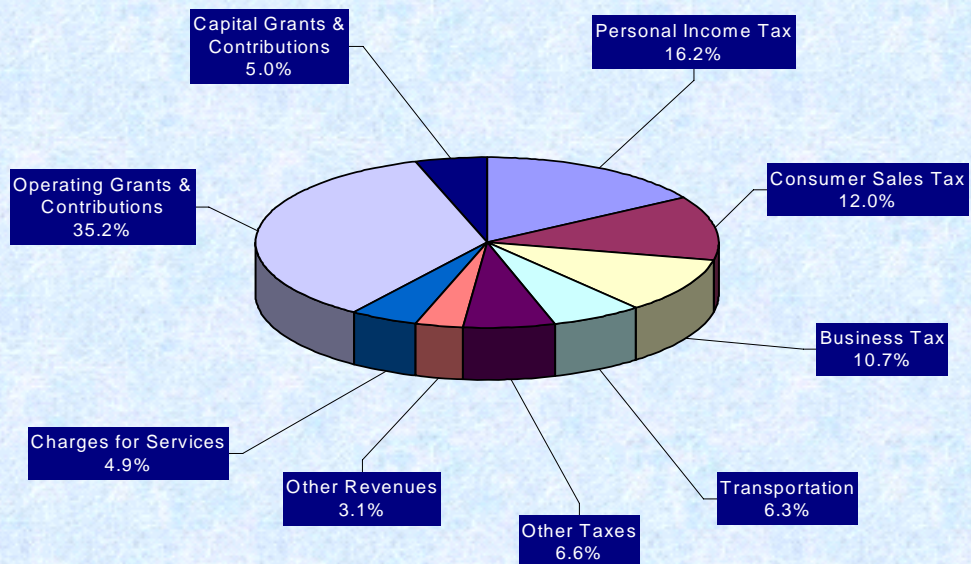


Miscellaneous:

Legislative - 0.3%
 Judicial - 1.1%
 Executive - 1.5%
 Revenue - 0.9%
 Senior Services - 0.4%
 Regulatory Boards and Commissions - 0.4%
 Employment Programs - 0.7%

State Revenue

2007 Sources of Revenue - Governmental Activities



Economic Outlook Affecting the Financial Future of the State of West Virginia

With the leadership of Gov. Joe Manchin III and the State Legislature, West Virginia is maintaining its positive direction toward a stronger, more vibrant state in which to live and work.

In a recent survey, West Virginia was ranked 8th in the nation for business recruitment and attraction. The state's average unemployment rate last year was 4.6 percent, the lowest unemployment average in the state's history. The number of West Virginians working last year averaged 778,269, the highest number during a year ever recorded, while the size of state government decreased for the second consecutive year for the first time in more than 15 years.

During the last three years, our leaders have addressed our state's debts directly by putting an additional \$1.7 billion toward our retirement systems. Investments are also made in our citizens by committing more than \$300 million since 2004 to install and upgrade water and sewage systems throughout West Virginia, with at least \$77 million worth of additional projects.

State consumers have

benefited from more than \$80 million worth of reductions in their insurance costs, with more insurance companies doing business in West Virginia than in recent years. The state's workers' compensation system has been completely transformed and privatized. In addition to our injured workers receiving better and quicker service, state businesses workers' compensation costs have decreased by an average of 27 percent, resulting in savings of roughly \$150 million.

State government tax changes have saved West Virginians approximately \$100 million annually by increasing the low-income family tax credit; doubling the amount of the senior citizens refundable homestead exemption tax credit; removing the "Welcome to West Virginia" motor vehicle privilege tax; and cutting the food tax in half. Additionally, another \$100 million of tax burden has been removed from state businesses during the past three years by, among other things, lowering corporate net income and business franchise taxes, and more reductions are proposed for the coming years. Combining the state's tax cuts with the workers' compensation decreases and insurance reforms, at least \$430 million has been returned to the citizens and businesses of West Virginia.

It is estimated that 80 percent of West Virginia households now have access to broadband Internet, up from 58 percent in 2004. Working closely with the private sector, the state's goal is to reach 100 percent by 2010 which will allow our citizens and businesses to better compete in today's global economy.





The state continues to lead the way in underground coal mine safety with many initiatives implemented, including the "rapid response" accident reporting system, hiring more mine inspectors, ensuring better equipped and trained mine rescue teams, and receiving its first of many underground emergency shelter in 2007.

State leadership is taking bold steps to ensure a quality of life for its citizens, both present and future, that leads to retaining good jobs and attracting new business opportunities. Working together, many more accomplishments may be realized for the citizens of our state.



West Virginia's Future Challenges

The following are major issues and trends of consideration in the future:

-  **Controlling Health Care Costs**
Health care costs expect to exceed 50% of future budget growth
-  **Managing the Prison Population**
Negate need for new prisons with associated cost burdens
-  **Preparing for our Aging Workforce**
Train workforce to adjust; provide work opportunities for citizens over age 65
-  **Addressing Volatility of Energy Resource Revenue**
Maintain significant reserves to offset potential decreases in energy revenue